

P-425/M-91-268 ORDER APPROVING RUNESTONE TELEPHONE ASSOCIATION'S
PETITION TO INTRODUCE OPTIONAL EXTENDED AREA SERVICE ON A TRIAL
BASIS BETWEEN THREE OF ITS EXCHANGES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
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Commissioner

In the Matter of a Proposal to
Introduce Optional Extended Area
Service Between Three Exchanges
on a Trial Basis

ISSUE DATE: October 8, 1991

DOCKET NO. P-425/M-91-268

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TO INTRODUCE OPTIONAL EXTENDED
AREA SERVICE ON A TRIAL BASIS
BETWEEN THREE OF ITS EXCHANGES

PROCEDURAL HISTORY

On April 8, 1991, Runestone Telephone Association (Runestone, or the Company) proposed to introduce Optional Extended Area Service (OEAS) between three of its exchanges on a trial basis. The period was to begin June 1, 1991 and continue for 18 months until December 31, 1992.

As of June 1, 1991, the Department had not yet finished its review of Runestone's filing. Nevertheless, the Company introduced its trial OEAS on June 1, 1991 as planned.

This matter came before the Commission on July 30, 1991.

FINDINGS AND CONCLUSIONS

Runestone's proposed plan establishes one OEAS route between Elbow Lake and Wendell and another between Elbow Lake and Barret. The OEAS rate is \$7.00 per month for both residential and business customers. No service order or central office charges apply unless a subscriber drops and then later reestablishes service under the pricing plan, in which case the subscriber is subject to a \$5.00 service order charge and a \$9.00 central office charge.

The Commission finds that Runestone's OEAS proposal is a local service offering and not a toll pricing plan. Historically, the Commission has viewed Extended Area Service (EAS) as a local service, characterized by flat rate billing rather than billing

for individual calls on a per message basis. This view is codified in the Commission's rules, which define extended area service as "interexchange calling for which a message toll charge is not assessed." Minn. Rules, part 7815.0100. Under Runestone's OEAS proposal, customers pay a flat monthly rate of \$7.00 for unlimited interexchange calling without any additional toll charges. Runestone's OEAS offering is also distinguished from a toll service by two additional characteristics: (1) seven digit dialing between central offices, and (2) bill payment to the local exchange company, Runestone, instead of an interexchange carrier.

Minn. Stat. § 237.161 establishes a process for converting certain interexchange routes from toll service to local exchange service through mandatory, permanent EAS. Runestone's OEAS proposal differs from the conversion contemplated by this statute in three respects. First, Runestone's proposal is optional, leaving each customer within the relevant exchanges free to continue toll service. Second, the Company's proposed OEAS is temporary, offered only on a trial basis. Finally, the proposal is not the result of subscriber petitions. As a new service offering, Runestone's OEAS is properly reviewed under Minn. Stat. §§ 237.06, 237.07, subd. 1, and 237.63, subd. 4b. These statutes, taken collectively, require reasonable rates.

The Commission finds that the Company's OEAS rate is reasonable. Runestone's OEAS is likely to result in a net decrease in its revenue due to the loss of access revenue. These losses, however, are not likely to threaten the Company's financial stability. The \$7.00 rate charged by the Company will not unduly burden customers. If customers believe they cannot afford this rate, they may choose to remain toll customers.

Finally, Runestone's proposal is a form of local service because, like traditional EAS, it will meet the day to day calling needs of subscribers. Before the legislature adopted objective traffic and adjacency requirements for EAS routes, the Commission used "community of interest" criteria to determine when an exchange's everyday calling needs outstripped its boundaries. Minn. Rules, part 7815.1000. Community of interest considerations are also helpful in evaluating Runestone's proposal. Community of interest has traditionally been examined using the following criteria:

- (1) the location of government, commercial, employment, and social events for persons living within the petitioning exchange;
- (2) the location of schools and school districts serving the petitioning exchanges; and
- (3) the location of medical, emergency medical, law enforcement and fire protection services serving the petitioning exchange.

Elbow Lake, the largest of the three exchanges, is the county seat of Grant County. Its size and political significance show it to be a commercial, employment and social center for the other two exchanges. All three exchanges have a consolidated school district. Finally, both the county hospital and sheriff's office are in Elbow Lake. Clearly, the community of interest considerations demonstrate that many subscribers in these three exchanges have everyday calling needs which include calls to the other two exchanges. Optional EAS is therefore a local service which constitutes a reasonable approach to meeting the needs of these subscribers.

The Commission has several concerns regarding Runestone's proposal. First, the Commission is concerned that the Company may be inclined to use the income loss associated with OEAS to reduce its return on equity in its Independent Local Exchange Company (ILEC) Earnings Investigation. This would distort the Investigation by injecting short term losses into a process meant to address long-term issues. The Company has assured the Department that it will not use these losses in the context of the ILEC Investigation. The Commission finds that excluding these losses from the Investigation is necessary to the approval of the Company's OEAS proposal.

The Commission is also concerned about the effect Runestone's offering will have on the income of U S West Communications, Inc. (U S West). U S West is the current monopoly toll carrier on the OEAS routes proposed by Runestone. These routes are short-haul toll from one independent telephone company exchange to another; therefore, U S West is probably losing money on these routes. The decrease in toll traffic likely to result from Runestone's OEAS trial will reduce U S West's losses on these routes, increasing U S West's income. Since Minn. Stat. § 237.161 does not apply to Runestone's filing, it is not necessary to ensure that the impact of the OEAS offering is revenue neutral. Nevertheless, the Commission concludes that U S West should receive the information needed to assess the fiscal impact of Runestone's OEAS. Therefore, the Commission will order the Company to provide U S West with the necessary information to make this assessment.

The Commission's third concern is that there be adequate information for the Commission to evaluate any petition to renew the Company's OEAS plan. The Commission, therefore, will require that the Company provide the Commission and Department with studies six, 12 and 18 months after the beginning of the trial period. The studies must include estimates of the changes in revenue, facilities and usage costs on the affected routes resulting from OEAS. The studies must also indicate the number of customers that have subscribed to OEAS, categorized as they were in the Company's original estimates. This will help the Commission and the industry project the number of customers likely to subscribe to any Optional EAS offered in the future.

Similarly, the Commission will require the Department to submit both a preliminary report detailing Runestone's findings and a final report analyzing the potential for Optional EAS in Minnesota. Both reports should include an analysis of which subscribers are likely to choose an OEAS type offering. The preliminary report should be submitted 15 months after the beginning of the trial period. The final report should be filed six months after the preliminary report is submitted. The preliminary report will assist the Commission further in addressing any future request for renewal of Runestone's current OEAS. The final report will assist the Commission in assessing the merits of OEAS in other areas of the state.

The Commission finds it critically important that the Company give the Commission adequate time to consider a request to renew its OEAS offering before the current trial period expires. The Commission considers it important to avoid the customer confusion that would result if there were a delay between the end of the current trial period and any subsequent renewal. Moreover, the Commission does not want the renewal decision to be rushed simply to make sure the decision is made before the initial trial expires. Therefore, the Commission expects that, if Runestone files for renewal of its Optional EAS, it will do so no later than three months before the trial period expires. This will give the Commission ample time to consider the Company's petition with 15 months of data from the trial period and with the benefit of the Department's preliminary report.

ORDER

1. The Company's petition to introduce Optional Extended Area Service for several of its exchanges on a trial basis for 18 months is hereby granted, subject to the conditions set forth below.
2. The Company shall not include any income loss resulting from its OEAS trial in the ILEC Earnings Investigation currently being conducted by the Department.
3. The Company shall provide the Commission and Department with studies on the performance of its OEAS trial six, 12 and 18 months after the start of the trial period. The studies must include estimates of the changes in revenue, facilities and usage costs on the affected routes which can be attributed to OEAS and must indicate the actual number of subscribers, categorized as they were in the Company's original estimates.

4. The Department shall submit a preliminary report to the Commission 15 months after the start of the trial period. This report shall detail and analyze Runestone's findings regarding the operation of its OEAS offering. The Department shall submit a final detailed report to the Commission 21 months after the start of the trial period. This report shall examine the potential for Optional EAS in Minnesota.
5. The Company shall provide U S West with the information needed to develop an estimate of the revenue and income U S West saved as a result of Runestone's OEAS trial. This information must be provided after the end of the trial period.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)